

A Study on Financial Performance Analysis of Tata Steel Limited

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ABSTRACT

Finance is the main source for an effective functioning of a company. An assessment of one or more facts of the company's finances is called a financial performance analysis. Businesses produce various financial statements which includes the balance sheet, the income statement, and the statement of cash flows etc., that can be used in evaluating overall financial performance. Each type represents the details of specific aspect of business and its finance. The Information is extracted from these statements to conduct a financial performance analysis. The objective is to understand the financial performance using ratio analysis for the period of five years. The tool used for analysis is Ratio analysis such as Liquidity ratios, Solvency ratios and Profitability ratios.

Keywords: Finance, Financial performance, Liquidity Position, Ratio analysis.

INTRODUCTION

Financial performance analysis indicates how effectively the resources from basic operations are employed to earn revenue. The financial analysis helps the stakeholders to understand the current position of the firm. It is a measure of the fitness of the economy of the firm and the ability of the management to run its business. These are the quantifiable metrics that used to measure how well a company is doing.

Financial Performance Analysis is about examining and evaluating a company's financial accounts, which are at a compilation of information arranged in accordance with accepted accounting rules. This analysis describes the methods that those examining the affairs of a business that is used to evaluate and assess its financial activity. All businesses take financial assets, which come in many forms, and use them to sustenance business activity, which generates revenue and ultimately, profits. This analysis converses to the overall financial health of the business.

REVIEW OF LITERATURE

Dr. S. Saravanan¹ and R. Prabhu (2018)² “*Research on the Financial Performance of Pharmaceutical Companies*” This study aims to assess the profitability status of India's selected pharmaceutical industry. The aim is to help management find their financial problems and specific areas of business. The companies chosen for this study were Sun Pharma Industries, Cipla, and Dr. Reddy's Laboratories Ltd. The survey period is from 2009-2010 to 2013-2014. The profitability of the study was measured with the help of gross profit margin and net profit margin. During the research, profitability had several ups and downs, but it did not affect the company's business. If the pharmaceutical industry is suited to performance, it will need to invest more capital and carry out more sales. Only then will the level of performance be improved.

Lakshmiprabha L¹ and Thanga Baalaji Amuthan (2023)² “*A study on financial performance of Air India*” This study focuses on the financial performance of Air India Limited and the objective of this study is aimed to compare the present financial routine with the last five years and to study the existing financial situation of the company. The facts used in this study are comparative balance sheet, common balance sheet and comparative balance sheet analysis. It shows that the

current liabilities are complex than the current assets every year, and it is to be recommended that the company focusses on increasing the level of the current assets to progress its financial position. The study of financial performance of the company has exposed a great deal about their several financial aspects. The comparative analysis reveals the complete financial performance of the company.

OBJECTIVE OF THE STUDY

To understand the financial performance of TATA Steel limited for the period of 5 Years using ratio analysis (Liquidity, Solvency, and Profitability ratios)

RESEARCH METHODOLOGY

Research Design: Research design is used for the study is both descriptive and analytical in nature.

Period of the Study: The current study focuses on the period of five years from 2019-2020 to 2023-2024.

Source of data: The study is primarily based on secondary data where the data has been gathered from journals, the company's audited reports, official websites and other sites.

Tools used for the study: Ratio analysis is used.

ANALYSIS

RATIO ANALYSIS

Ratio analysis is a process used for calculating the financial ratios or in other words, for the purpose of evaluating the financial position and well-being of the company. It is used to estimate a number of issues through an entity, such as its liquidity, efficiency of operations, and profitability. The standards used for the calculations of the financial ratios for the company are extracted from the financial statements of the company.

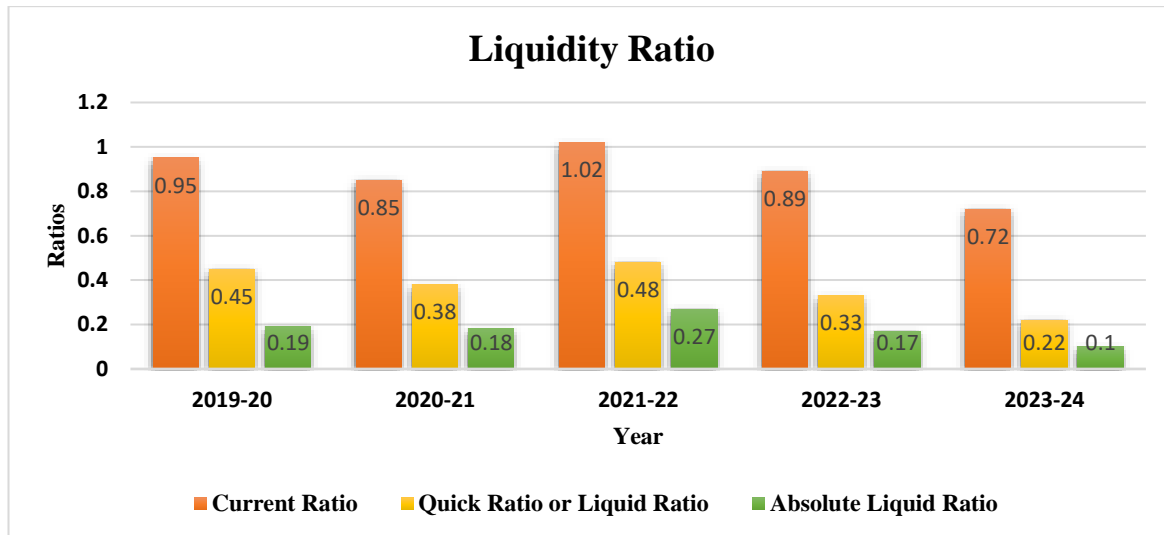
LIQUIDITY RATIOS

'Liquidity' refers to the ability to meet its current commitment of a concern as and when these become due. The short-term obligations are happened by realizing amounts from current, floating or socializing assets. These should be convertible into cash for paying short-term obligations. If current assets can reimburse the current liabilities, then the liquidity position of the company will be satisfactory.

TABLE SHOWING LIQUIDITY RATIOS

Basis	2019-20	2020-21	2021-22	2022-23	2023-24
Current Ratio	0.95	0.85	1.02	0.89	0.72
Quick Ratio or Liquid Ratio	0.45	0.38	0.48	0.33	0.22
Absolute Liquid Ratio	0.19	0.18	0.27	0.17	0.10

CHART SHOWING LIQUIDITY RATIOS



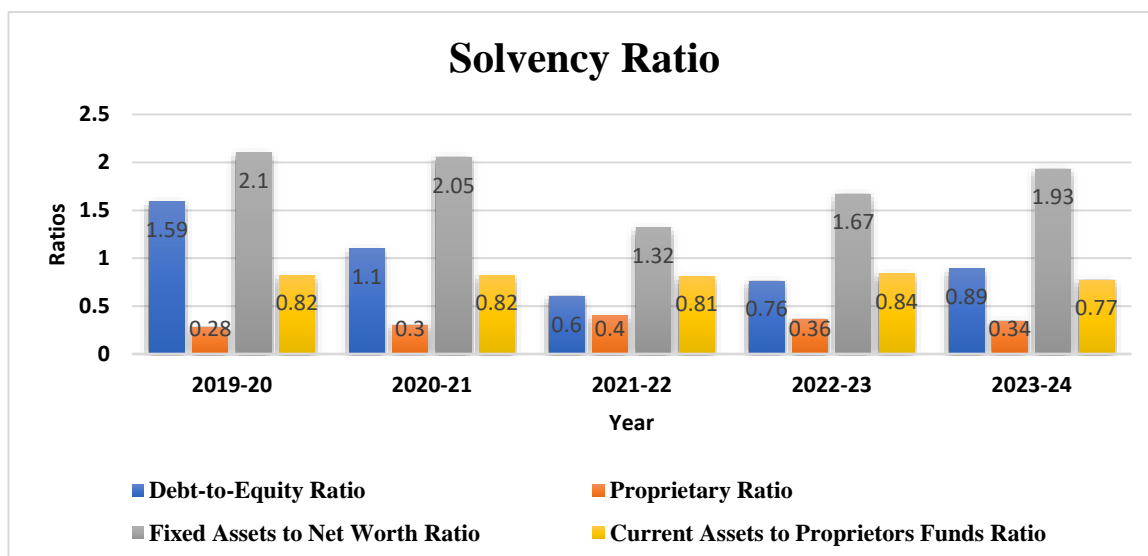
SOLVENCY RATIO

The word ‘Solvency’ states that the facility to encounter its long-standing commitments of a company. The long-term obligations of a company include debenture holders, financial institutions providing medium-term and long-term loans and creditors. The creditors of the company are primarily interested in knowing the company’s ability to cover their long-term liabilities.

TABLE SHOWING SOLVENCY RATIOS

Basis	2019-20	2020-21	2021-22	2022-23	2023-24
Debt-to-Equity Ratio	1.59	1.10	0.60	0.76	0.89
Proprietary Ratio	0.28	0.30	0.40	0.36	0.34
Fixed Assets to Net Worth Ratio	2.10	2.05	1.32	1.67	1.93
Current Assets to Proprietors fund Ratio	0.82	0.82	0.81	0.84	0.77

CHART SHOWING SOLVENCY RATIOS



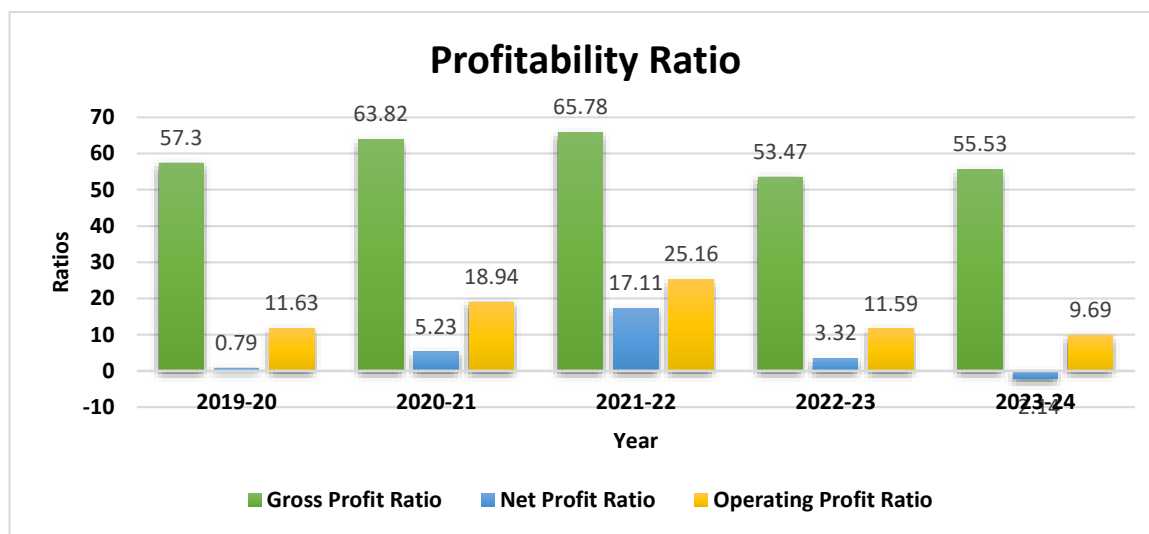
PROFITABILITY RATIO

Profitability Ratios are the financial measures which is used to access a business's ability to generate profit relative to items such as its revenue and assets. The primary objective of any business enterprise is to receive maximum profit. Profits to the managing is to test the efficiency and a regulator of measurement. Generally, Profitability ratios are considered either in relation to sales or in kith and kin to investment.

TABLE SHOWING PROFITABILITY RATIOS

Basis	2019-20	2020-21	2021-22	2022-23	2023-24
Gross Profit Ratio	57.30	63.82	65.78	53.47	55.53
Net Profit Ratio	0.79	5.23	17.11	3.32	-2.14
Operating Profit Ratio	11.63	18.94	25.16	11.59	9.69

CHART SHOWING PROFITABILTY RATIOS



FINDINGS

- The liquidity ratios such as current ratio, Quick ratio and Absolute liquid ratio is below the standard norms. In all aspects the company is indicated to improve their current, floating and circulating assets to meet their short- term liquidity position.
- Solvency ratios such as Debt-to-equity ratio indicates a higher dependency on debt, Proprietary ratio shows a increased dependency on assets growth outpacing equity growth, Fixed assets to net worth ratio shows a higher proportion of fixed assets relative to equity and Current assets to proprietors' funds ratio indicates more reliance on fixed assets or investments.
- Profitability ratios like gross profit ratio shows a fluctuating and a satisfactory gross profit, Net profit ratio shows a net loss in the previous year and moderate satisfactory net profit and Operating profit ratio is also fluctuating for the period, which indicates a decreasing ability to generate operating profit from total revenue.

SUGGESTIONS

From the results and study of Tata steel ltd for the last five year we can conclude some suggestions for company so that the company can be more efficient to generate profit.

- To improve profitability and reserves, they have to focus on cost efficiency, margin expansion and strategic reinvestment which will benefit them in higher profit margins and long-term financial stability.

- To reduce debt and liabilities, they have to lower their short-term borrowings and continue debt repayments which will benefit them in improved solvency and lower financial risk.
- To stabilize liquidity management, they have to increase cash reserves and optimize working capital which will benefit them in better financial flexibility and risk mitigation.

CONCLUSION

As finance is the nerve center for a long and continuous survival of the concern. The present study was directed on “Financial performance analysis on TATA Steel Limited” by using financial tools. This analysis helps us to present a fair detail relating to the overall liquidity position of the company. The company should take consistent efforts to improve their financial position up to the next level in order to make a benchmark. This helps in yielding a greater efficiencies and investor’s satisfaction. Thus, it is concluded that the overall financial performance is good and moderately satisfactory. In future, the expenses should be curtailed to increase their company profit.

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